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SOVIET ECONOMIC POLICY

December 1956 - May 1957

		Page
	Foreword	i
I.	Summary	1
II.	Problems at the end of 1956	5
III.	Economic Policy: Heavy Industry, The Consumer and "Catching Up" with the West	8
	A. Developments Before December Plenum	8
	B. The December Plenum	10
	C. From December Plenum to February Supreme Soviet	14
	D. The February Supreme Soviet and the 1957 Plan	18
	E. From Supreme Soviet to Khrushchev's Theses	21
	F. The May Supreme Soviet	25
IV.	Economic Reorganization: Efforts to Improve Management and Planning	29
	A. Background: Before the December Plenum	30
	B. The December Plenum	32
	C. The February Supreme Soviet	35
	D. The February Plenum	36
	E. Khrushchev's Theses	38
	F. The May Supreme Soviet	42
V.	Political Implications	44

SOVIET ECONOMIC POLICY

December 1956 - May 1957

FOREWORD

This study is an attempt to provide a somewhat detailed analysis of intelligence on Soviet economic policy from December 1956 to May 1957. It was written before, and does not consider, the convulsions of 3 July, but will be useful as background to an analysis of them.

Because it is relatively current, this analysis is not to be regarded as definitive. It is rather an attempt to pull together available factual information and to draw speculative conclusions on the meaning of the shifts in Soviet economic policy and on the insights these shifts provide into the problems of the Soviet leaders during this period. This study falls somewhere between the reportorial analyses of Soviet affairs in the regular publications of the Office of Current Intelligence, and the more detailed, less speculative CAESAR series of studies on the Soviet leadership, which are produced only after sufficient time has elapsed to allow a more complete accumulation of factual information. At a later date, if new evidence warrants, a CAESAR study on Soviet economic policy will be prepared to cover the year and a half following the 20th party congress.

This analysis is a working paper and represents the views of the Office of Current Intelligence, CIA.

SOVIET ECONOMIC POLICY

December 1956 - May 1957

I. Summary

Although continuing to grow at a rapid pace, the Soviet economy faced severe strains at the end of 1956, partly because the Sixth Five-Year Plan was overambitious and the output of key raw materials, the construction program, and progress in improving labor productivity were behind schedule. Added burdens had resulted from new economic commitments to the Satellites and a possible halting or slowdown of the USSR's announced reduction of military manpower. Increased pressures for improved living standards generated by the de-Stalinization campaign and unrest in Eastern Europe, had also arisen inside the Soviet Union.

From December 1956 through May 1957 two meetings of the Soviet Communist Party's central committee were convened to consider solutions to these problems, two new top current planners were appointed, and a reduced 1957 economic plan was approved. In February, party first secretary Khrushchev began to act as the regime's public spokesman on economic management--a role Premier Bulganin had played earlier--and by May he had pushed through a new plan for drastically reorganizing industrial administration.

During this period the regime dealt with two major economic issues. First, it re-examined the question of how much emphasis heavy industry should receive at the expense of the Soviet consumer in order to maximize the USSR's economic-military potential. In Soviet terms, the regime re-examined the doctrines on the "primacy of heavy industry," and overtaking the West in per capita output "in a short historical time." Second, the regime initiated during this period drastic measures to reorganize economic management and planning, hoping to increase efficiency and thereby to attain ambitious economic goals in all fields simultaneously.

On the first of these issues, the re-examination of economic policy, the resolution of the central committee's 20-24 December plenum admitted that the economy was overextended. Most of the speakers at the meeting, however, reportedly agreed that there could be no fundamental revision of planned output goals, although some modifications could be permitted. The major measure called for by the December plenum to relieve strains in the economy was a reduction in capital investment and an effort to concentrate investments on construction projects nearing completion

rather than starting new long-range projects. The committee may also have rejected plans made earlier in December for the consumer, which called for an immediate expansion of the housing program.

The 1957 economic plan, presented to the Supreme Soviet on 6 February by presidium member and newly appointed chief current planner M. G. Pervukhin, scheduled sharp drops in the growth rates of heavy and light industrial output, output of key basic raw materials, and in the improvement of labor productivity. The rate of growth planned for capital investment also dropped, but the absolute volume of investment was scheduled to be about 9 percent greater than in 1956. The 1957 plan also allocated a slightly higher proportion of total resources to the consumer than in the two previous years, but this was consistent with the Sixth Five-Year Plan and developments in 1956, when "fringe benefits" granted the consumer were quite substantial. At the same time, however, the need for the continued primacy of heavy industry was heavily emphasized by both Pervukhin and the Soviet press. The discussion of heavy industry in Khrushchev's "theses," published on 30 March, suggested that the degree of emphasis to be given heavy industry had been a subject of recent debate within the regime.

There are grounds for speculation that the 1957 plan contained larger reductions in current output goals, and possibly smaller reductions in capital expenditures, than envisaged by the regime at the December central committee meeting. Economic administrators had tried unsuccessfully a year earlier to bring about similar changes in the 1956 plan.

Although the low 1957 plan was accepted, it is probable that the leadership did not consider this cutback in planning particularly palatable. Another meeting of the central committee was convened immediately after the Supreme Soviet meeting in February, and Khrushchev took the lead in propounding radical changes in industrial administration in order to reverse the slowdown in Soviet economic growth. In addition, at the February plenum of the central committee and later, the theme of catching up with the West was reaffirmed; the Soviet press placed increasingly strong emphasis on "socialist competition" to overfulfill the plan; and the current planning group under Pervukhin first was criticized and then was faced with Khrushchev's recommendation that it be abolished under the new industrial reorganization.

Early in May, Pervukhin was appointed head of the Soviet atomic energy program--an important post but one removed

from over-all economic planning. Khrushchev, in his speech on the reorganization to the May meeting of the Supreme Soviet, explicitly criticized part of the 1957 plan. These events suggested that the party leaders regarded the low output goals of the 1957 plan with disfavor, and were unwilling to allow the low one-year goals to force a downward revision of the higher goals of the five-year plan.

The second complex of economic issues with which the Soviet regime concerned itself from December 1956 through May 1957 was reorganization and decentralization. In its efforts to maintain rapid industrial growth and to achieve all its other ambitious goals simultaneously, the regime had undertaken numerous "efficiency measures" in the management and planning field since Stalin's death, but the spate of such measures unveiled from December through May was far more drastic than those undertaken previously, indicating the seriousness with which the regime regarded its problems.

The new measures, which were clearly identified with Khrushchev, called for a reorganization of the economy along regional lines. The initial proposal was based on a report by Khrushchev at a Feburary 1957 meeting of the party central committee. In March, Khrushchev's lengthy "theses" on the reorganization were issued for public discussion, and in May Khrushchev presented the plan to a meeting of the Supreme Soviet for approval. Khrushchev's leadership in this field throughout the spring was part of his increasing pre-eminence in all areas of Soviet foreign and domestic policy. On the other hand, in the industrial reorganization as on several other subjects, Khrushchev during the spring modified his own previous positions, to take account of practical difficulties as the plan was worked out and also perhaps to obtain general agreement among the collective leadership. The industrial reorganization as approved in May was appreciably less drastic than that proposed in Khrushchev's theses in March.

Under the reorganization, to have been completed by 1 July, over 20 central industrial ministries were abolished, but key ministries running the atomic energy program, arms and related industries were retained. Over 100 regional economic councils are to be formed throughout the country to manage almost all industrial enterprises. These regional councils are to have fairly wide administrative powers but no policy-making functions, and the central authorities have explicitly been given the power to "suspend" decisions of the regional bodies. After the initial confusion, this reorganization may result in some improvement of industrial efficiency.

In the long run, however, regional bureaucracies and "special interests" will tend to replace present ministerial barriers and bureaucracies, minimizing the benefits of the reorganization.

II. Problems at end of 1956

At the end of 1956 and in early 1957, Soviet economic policy was in a period of flux, and despite efforts of the Moscow press to prove the contrary, Soviet leaders apparently encountered difficulties in finding acceptable solutions for their economic problems. Two separate meetings of the Communist Party's central committee were convened in this short period to discuss economic difficulties; the top current planner, M. Z. Saburov, was removed from his post in December; and a reduced 1957 economic plan was presented to the Supreme Soviet by his replacement, M. G. Pervukhin, in early February. Pervukhin, in turn, after receiving broad powers to supervise implementation of the plan, in early May had his current planning organization cut out from under him and most of its functions transferred to Gosplan, the newly reorganized body for both short- and long-range planning.

In addition, first party secretary Khrushchev began to act as the regime's public spokesman in the field of economic management at the February central committee meeting, and it was he who presented the plan for drastically reorganizing the economy along regional lines at the Supreme Soviet meeting on 7 May. In 1955 and 1956, Premier Bulganin had acted as spokesman on economic policy and management at central committee meetings and at the 20th party congress.

These signs of change came only one year after the ambitious Sixth Five-Year Plan had been presented to the 20th party congress in February 1956, and were in contrast with the confidence expressed by Soviet leaders at that time concerning the USSR's future economic growth. The reasons for this change were partly economic, partly political. By the end of 1956 the output of key raw materials such as coal, iron, steel, cement and lumber was behind plan. Increases in productivity, or output per worker, were also below schedule. Plans for the completion of new industrial construction projects and housing were lagging particularly badly. Serious lags in the construction of raw production facilities had existed since 1951, but until 1956 output goals could be and were met by drawing intensively on existing capacity. By 1956, however, opportunities to expand output from existing capacity had been reduced to a minimum, and the cumulative effect of the lags in construction was a basic reason behind the unsatisfactory output of raw materials.

Poor performance in these fields undoubtedly raised serious questions within the regime as to whether the Sixth Five-Year Plan as a whole was overambitious. At least some of the Soviet leaders probably realized that they were facing the dilemma of maintaining Stalinist forced-draft rates of growth in a system lacking many of Stalin's coercive controls. Furthermore, many of the most readily exploitable natural resources of the USSR were being fully utilized and increases in the rate of output would be very difficult. Expansion of raw material output in the eastern regions--the only long-range answer to this problem--would be a costly and slow process at best. Also hindering industrial growth was the increasingly severe impact of low war and postwar birth rates. The low birth rate of the 1940's was limiting growth of the industrial labor force, and the post-Stalin agricultural program precluded further large transfers of peasants to industry.

Political problems unforeseen early in 1956 increased the burdens on an economy already strained by the five-year plan. In order to maintain its position in Eastern Europe following the outbreak of Satellite unrest during the autumn of 1956, the USSR was forced to expand its economic aid to these areas, provide foreign currency and gold for needed purchases in the West, cancel prior debts of various Satellites, and reduce its own imports from Eastern Europe of certain important products, such as Polish coal. While the magnitude of this added burden was small in terms of total Soviet output, the Soviet leaders probably recognized it at least as an aggravation of existing strains. From November 1956 through May 1957, the USSR granted loans of over a billion dollars to Eastern Europe, and canceled prior debts of Rumania, Poland and Hungary to a total of $1.4 billion.

The need to maintain high military expenditures because of the increasing cost and complexity of modern weapons and increased East-West tension after Hungary and Suez also probably aggravated Soviet economic strains. The actual costs of the military intervention in Hungary and the more general Soviet military alerts connected both with Hungary and hostilities in the Near East were small, but the USSR may in addition have halted the implementation of previously announced demobilization plans. To the extent that the announced 1,840,000-man force reduction has not been carried out, the growth of the industrial labor force, and in turn industrial output, will be hampered accordingly.

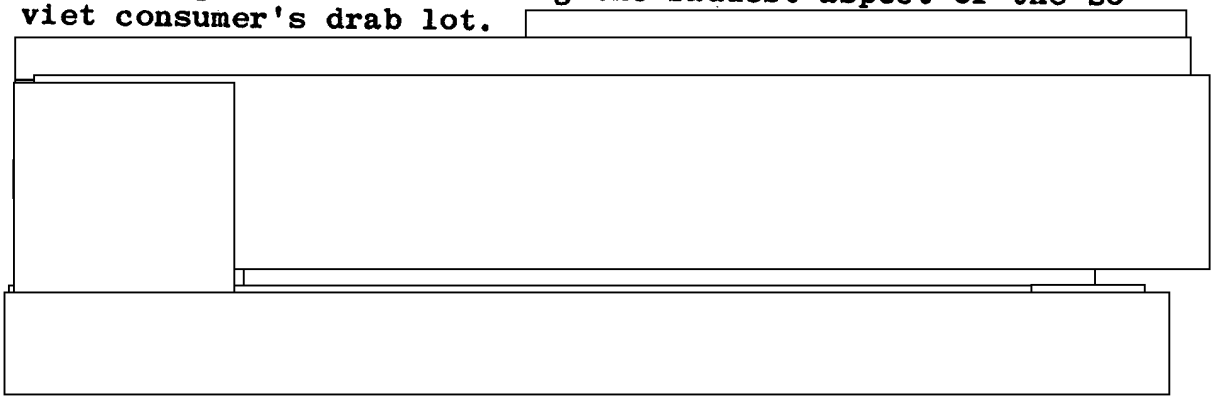
Another hindrance to rapid economic growth which could not have been clearly foreseen by the regime in early 1956 was the boost which the de-Stalinization campaign gave to pressures from the population in general, and the managerial technical and intellectual elite in particular, for more personal freedom, an easing of the constant pressures for high rates of industrial growth, and higher living standards. These pressures had been rising ever since Stalin's death, with the gradual moderation of police and coercive controls. The impact of de-Stalinization and the doubts it raised about inherent defects in the Soviet system, however, accelerated these forces. Of more immediate importance, and also connected with de-Stalinization, the unrest in Poland and Hungary probably made the Soviet regime more sensitive to discontent within the USSR, and more acutely aware of the need for economic concessions to alleviate the discontent and improve worker productivity. An increase of such concessions, however, would also reduce heavy industrial growth.

The following analysis attempts to show the Soviet reactions to these economic problems from December 1956 through May 1957, and point out certain inconsistencies in these reactions which suggest confusion or disagreement within the leadership over economic policy. There are two major issues with which most economic developments during this period can be linked, and which will be discussed separately in this analysis. The first concerns economic policy; a muted revival of the heavy-versus-light industry debate, and a re-examination of the relative emphasis which should be given to the expansion of industrial and military potential. To use the Soviet slogan, this was a re-examination of how rapidly the regime should attempt to "catch up" with the West in per capita output, and to what extent improvements in living standards should be subordinated to this end. The second major issue concerns economic reorganization; efforts to improve management and planning in order to reverse the downward trend of economic growth. Throughout the period under review, there was apparently some controversy over how much authority could be decentralized in the Soviet economy in order to increase efficiency, without losing the state control necessary to assure fulfillment of centrally made plans.

III. Economic Policy: Heavy Industry, The Consumer, and "Catching Up" With the West

A. Developments Before December Plenum

Although several of the new Soviet-Satellite economic aid agreements were concluded before December 1956, the first sign that Soviet internal economic plans were being re-examined in light of the above problems appeared in the field of housing construction--long the saddest aspect of the Soviet consumer's drab lot.



The first public sign that such a program was in the mill appeared in an Izvestia article of 12 December 1956 which stated that measures were "now being taken to increase significantly" the figure of 205,000,000 square meters of housing floor space originally scheduled for construction by the state during the Sixth Five-Year Plan.[3] About this time, Western news correspondents in Moscow sent out several stories reporting rumors that a party central committee meeting was to begin on 17 December and that a major increase in housing and consumer goods output was planned. On 16 December, however, a Pravda editorial quoted the original 205,000,000-square-meter housing figure as still valid, thus implicitly contradicting Izvestia's statement four days earlier.[4]

Some evidence also appeared in mid-December that a broader question was at issue, at least among Soviet economists, whether or not the USSR could continue indefinitely its very high rate of economic growth. The continuance of this rapid growth, in order to overtake and surpass the leading Western nations in a short time in per capita output, was built into the original schedules of the Sixth Five-Year Plan. The drive to overtake the West had always been a basic cornerstone of Soviet economic policy, and had received particularly frequent attention in Soviet propaganda since the 20th party congress. In an issue of the Soviet journal Planned Economy (Planovoye Khozyaistvo)

which was published in mid-December, the economist Ya. Joffe stated that it was necessary to reject the propositions of some authors that as the size of the economy increased, the "tempo of growth" must be reduced.[5]

The practical significance of the doctrine that quickly catching up with the West in per capita output was the "main economic task" of the USSR was probably that it provided the rationale for the continued preferential development of heavy industry. Equaling the West in per capita output would be, even in terms of the most optimistic Soviet interpretations, several five-year plans off. Continued primacy for heavy industry, however, was apparently regarded as absolutely necessary for maintaining rates of growth far enough above those of the West to keep the goal of catching up within decades rather than within half centuries. The narrower question of housing was also related to the broader question of over-all industrial growth, since diversion of resources to housing, at least in the already strained Soviet economy, would adversely affect heavy industrial growth.

At the same time, events elsewhere in the Sino-Soviet bloc were probably exerting some influence on the thinking of Soviet leaders on these problems. It was probably apparent to them as early as October that just about all of the East European Satellites would have to revise their 1957 economic plans in favor of consumer interests, and reduce heavy industrial investment, in order to alleviate some of the basic causes of unrest in those areas. In China during the same period, several articles appeared in the press and economic journals suggesting that the ratio of investment in heavy industry to investment in light industry be reduced from the eight- or seven-to-one which applied in China's First Five-Year Plan to six-to-one for the Second Five-Year Plan (1958-1962). Although Soviet statistics may not be strictly comparable, the corresponding ratio in the USSR had been about ten-to-one throughout the postwar period, except for the "new course" year of 1954, when the Soviet ratio dropped to around seven-and-one-half-to-one.

The reasoning in one Chinese article was that an increase in consumer goods production would promote higher agricultural output by providing better incentives to the peasants. In turn, the people's livelihood would be enhanced, "the alliance of workers and peasants" would be consolidated, the state's accumulation of capital increased, and the rate of development of heavy industry further accelerated. This tendency to regard heavy industrial growth as at least partially dependent on agricultural and consumer goods output differed from both

the Soviet and official Chinese dogma on primacy of heavy industry, under which the growth of agriculture, consumer goods, and the country's military power depended wholly on heavy industry. Another Chinese article stated that "some comrades," after seeing the "mistakes" of certain East European countries, had raised questions regarding the conflict between the preferential development of heavy industry and the care for the people's livelihood. The article, however, rejected these questions as not applicable to China.[6]

These developments elsewhere in the bloc probably had no more than an indirect impact on the Soviet regime's thinking concerning its own economic policy. Any explicit influence China had would likely have gone in favor of heavy industry, since it was in this field that China needed Soviet assistance. Some influential people in the USSR, however, were perhaps swayed by the same type of thinking. Furthermore, in the case of the East European Satellites, Soviet approval of their plan changes was probably required.

The central committee meeting called to discuss economic problems began on 20 December, not 17 December, as reportedly scheduled. The reason for the postponement is not definitely known,
embassy

This said the plans had called for a shift of resources to increase housing construction and consumer goods output, some reduction in output of conventional military weapons, a cutback in construction of cultural and communal facilities, and increased production of consumer goods at heavy industrial plants.[7]

B. The December Plenum

The central committee plenum, which met from 20 to 24 December in Moscow, did not make any significant changes in plans for the Soviet consumer. The Moscow press published two "decisions" of this meeting. One, on the need to improve the guidance of the economy, will be discussed below in the section on reorganization of the Soviet economy. The other, on "drawing up more specific control figures" for the nation's economic plans, essentially postponed a decision on how much of an increase in resources could be devoted to housing and consumer needs, and at the same admitted that heavy industry was suffering severe strains from overambitious planning.

The order was issued that the individual goals of the five-year plan and the 1957 plan be made "more specific," and that the five-year plan be presented in final form to the Supreme Soviet by mid-1957. The orders on how the individual goals were to be revised were broken down into two parts, one on industry in general, and one on housing:

> "(a)...reduce the volume of capital investments and...make the list of construction projects more specific, with a view toward reducing the number of them, primarily at the expense of new construction projects.... Revise the plan goals for individual industries which have not been supplied with sufficient materials....
>
> "(b)...seek out opportunities for allocating additional funds for housing...."

Thus the regime apparently could not agree on the immediate implementation of plans, which earlier evidence suggests had already been formulated, for a new division of resources between the consumer and an already overstrained industry, but called for a re-examination of how resources were to be divided.[8]

The central committee resolution on revising the plans reiterated that the basic policy pronouncements of the 20th party congress should remain as the guidelines for the plan. The need for continuing the primacy of heavy industry was reaffirmed, as was the line on catching up with the West in a historically short time. As on previous occasions, a call was issued "to develop constantly socialist competition as a powerful means of struggling for fulfillment and overfulfillment of economic plans." While admitting that industrial and construction plans might require a slight downward revision, and that opportunities should be sought for increased housing construction, the resolution asserted that such changes were to have no impact on the basic doctrines underlying the original five-year plan.

[redacted] indicated that capital investment problems were mainly responsible for the plenum.[9] During 1956 many ministries had reportedly put in strong bids for more investment funds, arguing that their goals could not be achieved without higher investments. The difficulties of increasing investment, compounded by pressure for more housing, resulted in "sharp" discussions at the plenum, [redacted] Most of the speakers reportedly agreed that there could be "modifications" but no fundamental revision of the five-year plan output goals, and that capacity for accomplishing them must be found within existing factories.

At the same time, the plenum clearly ordered a reduction in capital investment. [redacted] stated that Khrushchev and Molotov were leading speakers at the plenum, although the published decisions of the meeting were based on reports of Saburov, Baibakov, and Bulganin. [redacted] also suggested that a revival of the "heavy-versus-light industry" controversy occurred at the plenum, remarking that the party has always had to fight against a "right-wing tendency" to lower the tempo of heavy industrial production in favor of the consumer.

The seriousness with which the Soviet leaders regarded their economic problems became clearer two days after the plenum ended. The Soviet press on 26 December carried a decree appointing M. G. Pervukhin, member of the party presidium and first deputy premier, head of the State Commission for Current Planning, and removing M. Z. Saburov from this post. The reorganization of the Current Planning Commission will be discussed in more detail below as it relates to other measures for economic reorganization. In terms of pressures to change the division of available resources among various branches of the economy, however, it is important to note that the six top administrators who were named as Pervukhin's deputies represented almost all major economic sectors. As first deputies to Pervukhin were appointed--

--A. N. Kosygin, whose background is primarily in light industry,

--V. A. Malyshev, with a background in heavy industrial technology, atomic energy and shipbuilding.

As deputies to Pervukhin were appointed--

--M. V. Khrunichev, with an armaments industry background,

--V. A. Kucherenko, identified with the construction industry,

--V. V. Matskevich, minister of agriculture and long connected with this field,

--I. A. Benediktov, minister of state farms and for years a leading agricultural official.

All six of these men were given the rank of minister (the first four headed no specific ministries, while Matskevich and Benediktov retained their portfolios). The first five had previously been deputy premiers of the government, and were relieved of these posts.

There are several possible reasons for Saburov's removal from the top current planning post. The admission by the plenum of excessive strains in economic plans was very similar to criticisms of the Sixth Five-Year Plan made at the 20th party congress by Minister of Ferrous Metallurgy A. G. Sheremetev and Minister of the Coal Industry A. N. Zademidko. At that time Saburov censured these ministries, saying they had proposed "reduced plans," and had requested more investment funds than they needed. Saburov said "the party and the government had to intervene in this matter," raise the plans, and cut down on the investment requests. The performance of the ferrous metals, coal and several other industries in 1956 showed that Saburov had erred in raising the goals, and perhaps in encouraging an overly optimistic view of the rapidity with which the USSR could catch up with the West.

At the same time, however, the December plenum ordered investment reduced and repeated in milder form Saburov's earlier condemnation of efforts "by some executives" to have their economic plans reduced and thereby "to conceal their unsatisfactory work." According to the resolution, plans should be "realistic, but not too low." The surprisingly low goals announced in the 1957 plan a little over a month later suggested that Pervukhin's committee went further than the central committee had intended. Overambitious planning perhaps was a factor in Saburov's ouster, but the wording of the December plenum suggested that less of a reduction in goals was foreseen than actually occurred.

Another possible reason for Saburov's removal was that his Current Planning Commission presumably drew up the housing program, the immediate implementation of which was rejected by the December plenum. [redacted]

Opposition to the program, which probably centered on the fact that industrial construction would suffer and that cuts in industrial investment were already being forced by material shortages, could well have become opposition to the formulator of the program.

In another personnel change which occurred immediately after the plenum, I. F. Tevosyan was relieved of his duties

as deputy premier and appointed ambassador to Japan on 30 December. No evidence provided a reason for this apparent demotion, but Tevosyan, apparently the deputy premier with over-all responsibility for the metallurgical industry, might have been blamed for the poor showing of that industry in 1956. He could also have opposed some of the proposals at the December plenum on economic reorganization. (See Section IV, following.)

C. From December Plenum to February Supreme Soviet

While the reorganized Current Planning Commission was revising the 1957 plan in the six weeks following the December plenum, the Soviet Union continued the process of negotiating new aid and trade agreements with the Satellites, which increased at least marginally the strains on home resources. East Germany's Premier Grotewohl, returning from Moscow at the end of January with a new aid agreement, explicitly commented on the USSR's added burdens. He said it was "not easy" for the USSR to give the aid agreed upon, since the Soviet Union had to "shoulder the great economic tasks which have arisen from the convulsions in some socialist countries."[10] Probably because of Satellite needs for hard currency, and also because the USSR had a sizable adverse balance in its 1956 foreign trade, Soviet gold exports increased to a level which, if continued through 1957, would be considerably in excess of gold sales in the previous peak year, 1953, when the USSR had exported about $150,000,000 in gold.

Soviet aid programs to the free world during this period continued at roughly the level of the last half of 1956, although the USSR did not come up with a large counteroffer of economic aid for the Near East in reaction to the new American program. Arms shipments continued to Syria, and negotiations for re-equipping Egypt's armed forces were under way. The Soviet Union in the last half of January did tell Yugoslavia that implementation of its aid agreement with that country could not be carried out immediately, and in February the USSR postponed until 1961 the East German-Soviet project to help Yugoslavia build an aluminum combine.[11] These moves were almost certainly politically motivated, and intended to exert pressure on Yugoslavia in its dispute with the Soviet Union, but they also allowed a slight reduction in Soviet and East German economic commitments.

Within this framework the Current Planning Committee under Pervukhin worked during January to revise the 1957 plan. The Communist Party newspaper Pravda in mid-January reacted to Western press reports which had seized on the implication

in the December plenum resolution that Soviet industrial growth would slow down. The Soviet press during this period also shot off the first salvos calling for a massive campaign of "socialist competition" to overfulfill the 1957 plan and later the Sixth Five-Year Plan, in honor of the 40th anniversary of the 1917 revolution. Pravda's editorial on 12 January accused "hostile bourgeois propaganda" of "trying to portray the decisions of the (December) plenum as a reflection of some special difficulties facing our country, as a rejection of earlier planned higher rates of industrial construction." After labeling these views "slanderous," Pravda said that the question was not "a rejection of higher tempos of industrial construction, but a transition to a new stage of economic development in which high tempos are guaranteed not only, and not so much, by large capital investments as by more correct utilization of available resources." The editorial further argued that it was possible to lower capital investment in industry, thus providing more resources for housing, and at the same time increase "tempos of new industrial construction."

The fact that the 1957 plan announced the following month did show a substantially reduced growth rate for industrial output suggests first that Pravda's blast was aimed at internal pressures favoring a reduced growth rate as well as at "hostile bourgeois propaganda," and second, that the regime acquiesced to these pressures, at least temporarily. The corresponding Izvestia editorial of 12 January reiterated the December plenum's criticism of economic administrators who attempted to get plans approved which were lower than necessary.

The speeches made by the Soviet leaders on their tours through the provinces during the last half of January differed in their emphasis on various points. Only the speeches of L. M. Kaganovich and N. I. Belayev explicitly repeated the goal of catching up with the West in the shortest time, but all the others discussed in general terms the alleged superiority of "socialism" over capitalism and the inevitable victory of the former. The leaders all restated the primacy of heavy industry, but their speeches contained some interesting variations concerning benefits for the consumer. Bulganin, speaking in the Tadzhik SSR, admitted shortcomings in housing and supplies of consumer goods and said that efforts were being made to end these shortcomings. He emphasized, however, that "everything cannot be done at once." Kaganovich, speaking in Krasnoyarsk, said that under the directives of the December central committee meeting, the five-year plan was being "worked out" to ensure the preponderant development of heavy industry, but at the same time "to effect a sharp rise in the material

well-being...of the Soviet people." A. B. Aristov, in Chelyabinsk, stated that measures implemented during 1956 to raise living standards were one of the reasons why "some amendments" in the Sixth Five-Year Plan were required.

Also bearing on future economic policy was the way in which the leaders regarded the USSR's military strength in these speeches. The thesis calling for continued primacy of heavy industry has always been based in part on the country's need for military strength, and Bulganin, speaking in the Tadzhik SSR, reiterated this point strongly. Khrushchev, in Tashkent, said that the "mad arms race" being carried on by the United States demanded "increased vigilance and strengthening of our armed forces." However, Malenkov, speaking in Chkalov, took a more moderate view:

> "Our party teaches, and the whole experience of the struggle against the internal and external enemies of Communism shows, that one must not underestimate the enemy. But at the same time one should not overrate his strength or have a false picture of the strength of the capitalist world."

[redacted]

Meanwhile, the regime's leaders, in their speeches throughout the country, were pointing to the December plenum's cautious promise to seek more resources for housing as evidence of the party's concern with this problem. In addition, both Pravda and Izvestia frequently devoted editorial space to the subject, generally repeating the words of the December plenum and urging that better use be made of local resources, rather than state funds, to increase the supply of housing.

D. The February Supreme Soviet and the 1957 Plan

The 1957 plan presented by Pervukhin to the Supreme Soviet on 5 February scheduled sharp reductions in rates of growth for most branches of the economy. Heavy industry was planned to grow 7.8 percent in 1957, compared with the 11.4-percent growth announced as achieved in 1956, and light industry was to grow 5.9 percent, against last year's 9.4 percent. Growth of industrial labor productivity, scheduled at 5.4 percent for 1957, compared with a 7-percent growth achieved in 1956. In the field of capital investment, the figures may not be strictly comparable, but the 1957 plan called for almost a 9-percent increase, compared with a 17-percent increase in 1956.

In industry, Pervukhin emphasized particularly the need to increase the capacities of the fuel, metals and building materials industries, and scheduled much larger increases of capacity than of production. Military allocations in the budget were scheduled at practically the same high level as actual expenditures in 1956. Although the growth of light industry was planned to be below that of heavy industry, allocations to light industry from the budget increased far more in percentage terms (and slightly more in absolute terms) than did allocations to heavy industry.

The 1957 housing plan called for construction of 46,000,000 square meters of dwelling space from both state and private funds, compared with the 36,000,000 square meters actually built last year. This was a very substantial increase, and was consistent with the schedule of the original five-year plan, while 1957 goals in most other categories were below levels necessary to achieve the five-year plan. On the other hand, the housing increase did not represent an upward revision of the original five-year plan goal, as some earlier evidence had suggested would be the case.

In foreign trade, Pervukhin scheduled a 13-percent increase in total trade with other countries of the bloc. He said that the doubling of Soviet trade in 1956 with the Near East and Asia "should be noted," but omitted any reference to future trade with this area.*

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*This report is not intended to give a detailed analysis of the 1957 Soviet economic plan, except as it affects the main lines of Soviet policy.

In Pervukhin's speech, and throughout the published discussions on the plan at the Supreme Soviet, there was no reference to the doctrine of catching up with the West in per capita output in a historically short time. The complete silence on this point possibly reflected unhappiness within the leadership over the sharply cut rates of growth in the plan. Less than a month earlier the Pravda editorial of 12 January had attacked as "hostile bourgeois slander" any speculation that the rate of growth would in fact drop, and yet precisely this happened.

The leadership may not have envisaged at the December plenum the drastic revision of current output goals in the 1957 plan. The wording of the December plenum's resolution had indicated some downward revision, but not so large a one as appeared in the plan. Furthermore, the December plenum had explicitly ordered "the volume of capital investment" to be reduced, and in fact the absolute volume increased, although at a slower rate than in the preceding year. The plenum's instruction may have meant a reduction below the original 1957 plan, or a reduction below the absolute volume of 1956. In any event, it seems likely that in working out the 1957 plan, Pervukhin allowed larger reductions in current output goals, and perhaps smaller reductions in capital expenditures, than were envisaged by the December plenum.

Plan changes of precisely this type would be favored primarily by economic administrators, from ministers and their deputies down to individual plant managers. At the 20th party congress a year earlier it was such individuals who had been squelched by Saburov in his successful efforts to revise the 1956 output goals upward, while cutting back the investment funds requested by ministries. Since Pervukhin and his deputies were primarily experienced in industrial administration, rather than in planning or in the party apparatus, they might have had more sympathy than their predecessors for arguments in favor of reduced output goals.

The likelihood that the 1957 plan was not exactly the one ordered by the December plenum was strengthened by the fact that Pervukhin emphasized throughout his speech on the plan that the goals should be overfulfilled. His frequent references to the ease with which the plan could be overfulfilled far outweigh his one reference to the plan being realistic, but not too easy. Pervukhin probably found himself in an unenviable position, pressured by industrial administrators to lower plans, and faced by displeasure from other members of the party leadership when he did.

On the subject of heavy industry, the 1957 plan also represents a possible departure from the propaganda line and the policy of 1955 and 1956. As noted previously, total allocations from the state budget to light industry increased more than did allocations to heavy industry (these budgetary allocations cover certain operating expenses as well as investment, and figures for investment alone are not available). This happened last in 1954. Furthermore, the lead editorial in an issue of the party journal Kommunist which was published later in February stated that in the 1957 plan the proportion of total allocations devoted to production of consumer goods, housing, schools and hospitals was higher than in 1956.[16] The Pravda editorial of 9 February, after reaffirming at great length the preferential development of heavy industry, and emphasizing that heavy industry was "the solid foundation of the national economy...and its defense capacity," stated that "the distinguishing feature" of the 1957 plan was that it envisaged "higher tempos than hitherto for the production of consumer goods."

Thus, in practice, the plans for 1957 apparently called for giving the consumer a little larger piece of the total pie this year. This probably resulted in part from the fact that housing plans, although not increased above the original schedule, were at least not cut back this year; in part from last year's good harvest, which should increase food supplies in 1957; and in part from the increased budgetary allocations to light industry. Increased emphasis on improving living standards had actually begun to develop earlier. The Sixth Five-Year Plan approved by the 20th party congress had indicated that the consumer would receive a gradually increasing share of total resources in the later years of the plan. In 1956, substantial "fringe benefits," such as higher pensions and increased minimum wages, were granted the consumer.

Although an increased proportion of total resources could be devoted to the consumer in any one year without raising the growth rate of output for the consumer above the heavy industrial output, it may actually be somewhat difficult for the USSR to keep light industry's rate of growth below that of heavy in 1957. Agriculture provides more than half of the raw materials for light industry in the Soviet Union, and last year's large harvest will tend to increase light industrial output this year. Unless present problems in the fuel, metals and building materials industries are solved, on the other hand, heavy industry may face continued raw materials shortages. (Housing, of course, is not included in the Soviet accounting categories for either heavy or light industrial output.)

The pressures faced by the planners both to give more to the consumer and to allow industry more investment funds appeared very clearly in the speeches of local deputies at the Supreme Soviet meeting. A representative from the Estonian SSR complained that an industrial plant in his region was to have been modernized under the directives of the 20th party congress on the Sixth Five-Year Plan, and said this modernization, which was to have begun in 1957, was being postponed and now "was not even included in the Sixth Five-Year Plan." A deputy from Leningrad complained that under the five-year plan directives two long-distance gas pipelines were scheduled for construction to Leningrad by 1959, but that now only one was envisioned. A female deputy from the Latvian SSR quoted a decree of the Council of Ministers which ordered all enterprises employing more than 500 women to have their own children's institutions, and criticized various ministries for not obeying this decree. She pointed out that the Ministry of Light Industry employed 33,000 women in Latvia, but had kindergartens and nurseries for less than 900 children.

The speeches at the Supreme Soviet also provided further evidence that housing plans, except in a few large cities like Moscow or vital industrial areas like the Donbas, were not being revised upward. A Moscow delegate did announce that the five-year housing plan for the capital was being increased from 9,000,000 to 11,000,000 square meters. A deputy from the Karelian Autonomous Republic said that sawmills of his area subordinate to the Ministry of the Timber Industry had produced 159,000 square meters of prefabricated housing in 1956, but were ordered to reduce output sharply in 1957, to 60,000 square meters. Representatives of the Azerbaidzhan SSR, Chuvash Autonomous Republic, and Kemerovo Oblast also complained that housing plans for their areas were either the same as last year or lower.

E. From the Supreme Soviet to Khrushchev's Theses

After the Supreme Soviet, the spotlight shifted from economic policy to economic reorganization in the USSR (the latter problem will be discussed in the next section). Immediately following the Supreme Soviet, a new central committee plenum met on 13 and 14 February, and issued a resolution based on proposals of Khrushchev for a drastic reorganization of economic administration along regional lines. This proposal, to be worked out in detail and presented to the next meeting of the Supreme Soviet by the party presidium and Council of Ministers, was described in a later speech by Khrushchev as an effort to evoke a great new upsurge of industrial output, comparable to that achieved in agriculture by the similarly grandiose "new lands" program.

Some parts of the February plenum's resolution, however, do concern economic policy, and may represent the reaction of the party leadership--or dominant elements of it--to the low 1957 plan, which was perhaps not precisely what they had ordered two months earlier at the December plenum. While accepting the plan, the party leaders through their own forum, the resolution of the plenum, issued several statements inconsistent with those made at the Supreme Soviet. The optimistic tone of the plenum's resolution was similar to that of the 20th party congress a year earlier, and the pledge to "overtake and outstrip the most developed capitalist countries in per capita production" was restated. The resolution emphasized that the most important condition for achieving this aim was rapid growth of labor productivity, and stated, "We have every possibility to achieve this task successfully." As mentioned earlier, Pervukhin ignored the theme of catching the West in his presentation of the plan to the Supreme Soviet, and the plan scheduled only a 5.4-percent increase in industrial labor productivity.

In addition, the plenum leveled a criticism at the Current Planning Commission, which was not mentioned in December; it was probably aimed at Pervukhin's commission, rather than at Saburov's. The commission was ordered not to "duplicate the work" of Gosplan (long-range planning), and not to interfere with "functions of management." Finally, the February plenum's resolution contained no reference to the 1957 plan which had just been approved, although it did have praise for the rapid economic growth of 1956.

The accusation that the commission was duplicating the work of Gosplan might indicate that the party leaders regarded the low 1957 plan goals as incompatible with higher goals, which, they perhaps insisted, had to be incorporated in the revised five-year plan. At any rate, the campaign to develop "socialist competition" for overfulfilling the 1957 plan in honor of the 40th anniversary of the 1917 revolution picked up steam after mid-February. Pravda editorials between 18 February and the end of March mentioned this subject on 10 days, and Izvestia followed suit, although less frequently. Pravda on 3 March called for fulfillment ahead of time of the Sixth Five-Year Plan goals, as well as the 1957 plan, and an editorial of the trade-union paper Trud repeated this line early in March. On 17 March, a central committee resolution was issued concerning preparations for the 40th anniversary of the revolution, which explicitly called for overfulfillment only of the 1957 plan, and also repeated the goal of overtaking the West in a historically short time.

On 30 March Khrushchev's "theses" on the proposed economic reorganization were issued, and again the goal of catching the West was strongly reaffirmed. The theses also called for the transfer of most of Current Planning Commission functions to Gosplan, and the abolition of the former. The failure of Pervukhin to be appointed as head of this combined current and long-range planning group tends to confirm speculation that his conservative approach to the 1957 plan was not satisfactory. Subsequent reports that both Malenkov and Khrushchev told Westerners that Saburov had drafted Khrushchev's theses on the reorganization suggest a return to more ambitious planning after the 1957 plan was formulated.

Khrushchev's theses also contained a lengthy analysis of why continued primacy for heavy industry was necessary, and the wording suggests (1) that the degree of emphasis to be given heavy industry had recently been under debate within the regime and (2) that Khrushchev may have compromised slightly his earlier hard position. On one hand, he emphasized--

> "If we accept an incorrect and false interpretation and direct the basic means toward the development of...light industry, we can but achieve a semblance of success and ensure the satisfaction of certain demands for a short time only. And this will be at the expense of undermining...the development of our economy in the future....In order to outstrip the most developed capitalist countries in per capita output, it is necessary...to ensure the priority development of heavy industry."

On the other hand, Khrushchev made several statements different from any he had made previously, at least since early 1955:

> "....It is impermissible to tolerate the primitive interpretation of the role and interrelation of heavy and light industry, the harmful contrasting of these branches....The matter should not be pushed to the verge of absurdity --to one-sided development of heavy industry ignoring the development of light industry-- which inevitably would cause difficulties in the development of the national economy and delay the further improvement of the living standards of the people."

In a speech to agricultural workers on the same day, 30 March, Khrushchev formulated his position as follows:

> "....While further consolidating heavy industry, which is the basis of the national economy, we must at the same time produce more clothing, various foodstuffs--and not simply foodstuffs, but good ones--build more houses, and also satisfy other needs of the people. Our Soviet people must have the highest living standard in the world, and we shall achieve this great aim."

This is reminiscent of the position taken by Malenkov in August 1953, and probably reflects Khrushchev's desire to have his cake and eat it too.

Whether or not Khrushchev has modified his stand, two articles published in the party journal Kommunist shortly after the February plenum illustrated the type of thinking which could lead to a change, and the intellectual pressures for a change. One of the articles, entitled "Survivals of Capitalism in Men's Mentality Under Socialism and How to Overcome Them,"[17] implied quite clearly that the recent increase of intellectual nonconformity and of vocal opposition to defects in the Communist system was caused in part by low living standards. The author noted that often the only means suggested to combat the "relics of alien ideology" were education measures. This "one-sided approach," was seen in too many articles and pamphlets, which "assert that backward views in a socialist society exist only because men's consciousness lags behind the new conditions of life." According to the author, this did not "fully explain the survivals of backward views, and especially the fact that they grow even stronger at times." The author emphasized that improved living standard as well as educational measures were necessary to combat these tendencies, and concluded--

> "Insofar as socialism and the socialist principles of distribution still cannot secure the full elimination of differences (between classes) and the satisfaction of material needs, or of other "birthmarks" of the old society, these "birthmarks" may under certain conditions nourish backward views to one or another extent, and actually do so."

The lead article in the same issue of Kommunist was devoted to a discussion on the Supreme Soviet meeting and the

1957 plan, with several paragraphs at the end on the February plenum.[16] This editorial did not repeat the lines on primacy of heavy industry or catching the West. It devoted much of its attention to explaining why the Supreme Soviet had approved legislation decentralizing certain powers for Moscow to the union republics (this will be discussed in the section on reorganization, following). The rationale given for this increase in "democracy" could very easily apply, although the authors did not explicitly make it apply, to the slowing down of growth rates and slightly increased emphasis on consumption in the 1957 plan. The article pointed out that the steady increases in "democratization" during recent years were sometimes connected wholly with the need to eliminate effects of the personality cult, but stated that the basic reason for more democracy lay "in the objective changes which have transpired in the economic, cultural and political development of the Soviet peoples."

Among these "objective factors," the article emphasized that a number of "socialist" countries had sprung up around the USSR since the war, and the existence of these countries had substantially weakened the bonds of "hostile capitalist encirclement." Therefore, "Communist construction in the USSR during the postwar period has been developing...under more favorable external conditions." Since there was "firm confidence" in the invincible might of the "socialist" countries, the existence of the "socialist" bloc raises in a new light questions of economic, social and political development. "He who does not understand (this)...demonstrates his inability to conceive of socialist development in any but a narrow national framework." This seems to be at least a suggestion that "capitalist encirclement" of the USSR has been weakened to such a point as to justify a new look at basic Soviet policies in all fields.

F. The May Supreme Soviet

In the month between the issuance of Khrushchev's theses and the Supreme Soviet meeting of 7 to 10 May, Soviet internal propaganda concentrated on the nationwide and allegedly "free" discussions of the proposed industrial reorganization almost to the exclusion of other economic themes. The economic planners presumably continued their efforts during this period to make the 1960 industrial output goals of the five-year plan "more exact," to "eliminate excessive strains" by slight reductions in these goals, and to cut back planned capital investments. There was no public reference in April or May, however, to the December plenum's instruction that the plan's final version be worked out by midyear. The

sharp reductions in the output goals of the 1957 annual plan probably made difficult the attempts of the long-range planners to maintain basically unchanged the original goals of the five-year plan.

An event occurred just before the Supreme Soviet convened which tended to confirm that the regime was dissatisfied with the magnitude of reductions in the 1957 plan. Pervukhin, though the logical candidate for the chairmanship of Gosplan, was appointed on 3 May minister of medium machine building. This appointment as chief of the Soviet atomic energy program gave Pervukhin a very important job, but one removed from over-all economic planning. As head of Gosplan, which under the reorganization was made responsible for both long-range and current planning, the regime on 5 May appointed I. I. Kuzmin, a previously obscure party apparatus man with experience in the industrial field but with little political standing. He was not a member of the party central committee, although he was on its auditing commission.

There is no evidence which explains Kuzmin's appointment. He could be a protegé of Khrushchev from the party apparatus. As an equal possibility, however, he could represent a compromise choice by the party presidium of a lower-level individual who did not have an independent power position and who would therefore be responsive to the collective leadership in formulating and implementing the five-year plan. In view of Khrushchev's increasingly evident dominance over the Soviet leadership during April and May 1957, the first of these alternatives seems more likely.

Khrushchev's lengthy speech at the Supreme Soviet meeting in May was devoted primarily to the industrial reorganization but also contained some clues concerning economic policy. The propaganda lines on primacy of heavy industry and catching up with the West in per capita output were again emphasized. In addition, Khrushchev explicitly criticized the Current Planning Commission under Pervukhin for the way in which the 1957 plan for the coal industry was formulated. According to Khrushchev, a plan had been worked out in 1956 to improve coal mining in the Donbas, but "a few months later it was arbitrarily violated during the drafting of a new plan for 1957." Khrushchev also criticized the planning organs, though not specifically in connection with the 1957 plan, for "agreeing too easily...to superfluous capital investment." These criticisms are the best evidence to date that the regime regards at least some elements of the 1957 plan with disfavor.

The May Supreme Soviet meeting gave no consideration to the five-year plan, although last December the party central committee instructed that the final version of the plan be presented to the Supreme Soviet by mid-1957. The reduced 1957 plan makes the original 1960 goal for industrial output almost impossible to fulfill, but evidence as of May 1957 presents a conflicting picture on whether or not the five-year plan output goals will be substantially reduced.

On the one hand, in addition to showing signs of dissatisfaction with the low 1957 annual plan, several Soviet leaders have recently made very optimistic statements on the USSR's prospects for overtaking the United States' economy. Bulganin, speaking to a group of visiting American women on 5 May, made an off-the-cuff comment that the Soviet Union could catch up with the United States in another 40 years. Khrushchev, speaking on 22 May to agricultural workers in Leningrad, boasted the USSR could overtake the United States in the output of meat and dairy products by 1960 or 1961, despite predictions of "some economists" in the USSR that this goal could only be reached by 1975. This willingness to flout the views of experts in one field suggests that Khrushchev would also oppose efforts in other fields to reduce plan goals. Soviet newspapers in recent months have also restated many of the original 1960 goals, including those for coal, pig iron, state housing, internal trade, petroleum and light industry.

On the other hand, according to an early May report [redacted] the 1960 industrial production target had been cut from 165 percent of 1955 to a new target of 158 percent. In addition, the Soviet press revealed reductions of from 5 to 10 percent in five-year plan industrial goals of two individual republics--Latvia and Uzbekistan--in April and mid-May respectively. In late April, an article in the party journal Kommunist, by a senior economist of the State Planning Commission, also implied that the capital investment target of the Sixth Five-Year Plan had been cut. Centrally planned investment was originally scheduled to be 990 billion rubles during the plan period (1956-1960). Calculations based on data in the Kommunist article indicate that such investment has been reduced 6 percent to 930 billion rubles. This probably signifies a real reduction in planned investment, but not conclusively so, since centralized investments (those scheduled by the central planning bodies and carried as part of the national economic plan) may constitute a smaller proportion of total investment under the reorganized administrative structure of industry.

While the conflicting evidence on the five-year plan allows no conclusion as to the plan's final form, it suggests that pressures in favor of a substantially reduced plan and pressures for optimistic, exceedingly ambitious plans continue to exist side by side. Since Khrushchev, an apparent protagonist of ambitious plans, has modified his own previous positions on the industrial reorganization and on several other subjects this spring, he could do the same on the five-year plan, probably without loss of face or influence, if he felt such a move necessary in order to obtain agreement among the collective leadership.

IV. Economic Reorganization: Efforts to Improve Management and Planning

The second complex of economic issues with which the Soviet regime concerned itself from December 1956 through May 1957 was reorganization and decentralization. Unwilling to face the prospect of slower heavy industrial growth, or perhaps unable to reach a stable agreement that this was the only feasible way to eliminate serious strains in the economy, the leaders had been striving since Stalin's death to increase economic efficiency and improve management so as to achieve all their ambitious goals simultaneously.

An earlier spate of "efficiency measures" appeared, for example, in mid-1955. In May of that year, the State Planning Commission (Gosplan) was split into separate bodies for long-range and current planning, and new, high-level government committees for wages and labor and for introducing new technology into the economy were established. At the July 1955 meeting of the central committee, a major program was launched to modernize Soviet industry and increase its efficiency. [redacted] In addition, various industrial ministries were split into more specialized ones from 1954 through early 1956 to improve management and increase efficiency. A similar spate of more drastic measures, some even reversing several of those listed above, were adopted or proposed from December 1956 through March 1957.

The "efficiency measures" of the recent period were intended to achieve a real degree of decentralization, along geographic lines, of authority and responsibility for implementing economic plans, and a semblance of decentralization of the responsibility for formulating economic plans. At the same time, all public statements during this period emphasized that central control was to be retained over both the formulation and implementation of basic economic policies. The mere statement of these aims shows the dilemma which faces the regime and which none of the measures adopted during this period answered very precisely: how much real decentralization can be allowed without reducing the ability of the central authority to implement national policy?

Present information on Soviet efforts toward economic reorganization from December through March indicates that the regime faced two specific problems:

(1) Should a reorganization of industrial management be carried out wholly along geographic lines, or should the authority and independence of individual but centralized ministries be strengthened? Once this question had been decided in favor of geographic decentralization, should economic regions be organized according to existing political divisions--republics, krais and oblasts--or should the regions be set up according to economic logic, incorporating fairly well integrated industries and services in one region?

(2) How should the planning bodies, state control apparatus, trade unions and financial organs be reorganized so as to assure central control? What role should the Communist Party apparatus play?

A. Background: Before the December Plenum

One of the methods by which the regime attempted to increase industrial efficiency from 1954 through early 1956 was to split up existing industrial and construction ministries, forming new and more specialized central ministries. The most recent example of this was the Soviet press announcement of 22 January 1956 that the Ministry of Machinery and Instruments was being divided into a Ministry of Instruments and Automation and a Ministry of Machine Building.[18] During the same period, there was a countertrend of transferring some details of planning and administration to the union republics and their ministerial apparatus. A government decree of 4 May 1955, for example, transferred to the republics numerous detailed questions of planning in the budgetary and investment fields.[19] In addition, in 1954 and 1955 several all-Union ministries were changed to Union-Republic ones, and counterpart ministries set up in certain republics.

After early 1956 the second of these trends began to win out over the first. A government decree of 30 May transferred from USSR ministries to the corresponding republic ministries a large number of enterprises in the food, light, textile, building materials, paper and other industries, and also the retail trade network. At the same time the USSR Ministries of Highway Transport and Inland Shipping were abolished, and the Ministries of Light Industry and Textile Industry were merged.[20] The latter two industries had been divided into two ministries less than a year earlier. The head of the newly combined Ministry of Light Industry was N. S. Ryzhov, who was later, in February 1957, sent out as ambassador to Turkey.[21]

As a result of these and earlier measures since Stalin's death, the Soviet Union could claim at the end of 1956 that about 15,000 plants had been shifted from central government to republic jurisdiction and that the proportion of industrial output produced by plants subordinate to the republics rather than the USSR government had increased from 31 percent in 1953 to 55 percent in 1956.[22] Much of this transfer of power was only nominal, however, and in many instances meant merely the addition of republic ministries as another link in the chain of command between USSR ministries in Moscow and the individual enterprises.

Some emphasis on the geographic or regional approach to economic organization had been evident in the original draft of the Sixth Five-Year Plan. The draft ordered that a long-range plan be drawn up "for specialization and co-operation in industry in conformity with the economic regions of the country." In the construction field, the draft plan called for the merging of small building organizations into territorial building agencies, like those established in 1954-55 in Moscow, Leningrad and Kiev.

In late 1956 several events occurred which indicated that the regime was devoting increased attention to the questions of central control over the economy and economic regions as a basis for administering industry. On 21 November, first deputy premier and former foreign minister V. M. Molotov was appointed minister of state control. In the preceding years this ministry had lost most of its earlier powers, except that of auditing the financial records of enterprises. Shortly after Molotov took over, however, [redacted] Soviet press statements began to show that the ministry was re-emerging as a powerful instrument of centralized authority. The ministry appeared to be extending its powers from those of a financial watchdog to inspecting the implementation of government orders in other fields. One press article suggests that the ministry also began to levy penalties on enterprises and order the dismissal of certain officials--powers which the ministry had lost as early as 1948.[23]

In mid-December, just before the December plenum, an article discussing the problems of economic regions appeared in the journal of the State Planning Commission.[24] This article, footnoted as being "for discussion," strongly emphasized the need to form economic regions on a "scientific" basis, and contained only brief references to the need for considering "the Leninist nationality policy," i.e., the existing political-administrative divisions. The author stated that two basic criteria for an economic region should be

(1) large-scale specialization on a certain type or types of production, and (2) "economic completeness," i.e., an adequate base of fuels, machine building, agriculture, consumer goods and transport to support the large-scale output of those products in which the region specialized. The article noted that at present the administration of the economy must be based on existing political administrative units, but expressed the hope that in the future, changes of administrative-territorial divisions would be possible.

Up to this time, although the planning bodies had split the Soviet Union into economic regions (there were 13 at the end of 1956), these regions were used only for planning purposes. This article did not imply that the present system of economic administration through ministerial or existing political-territorial divisions would be changed in the near future. Some pressures in this direction, however, were revealed in the Soviet press during the fall of 1956. The director of the Ural Machine Building Plant in Sverdlovsk suggested in October that "the time had finally come to create in economic regions organs which would study production ties" of enterprises within the region and attempt to induce more specialization and co-operation among enterprises.[25] On 21 December, a secretary of the party committee in a Leningrad industrial plant wrote: "Perhaps it would be expedient to combine the various branches of industry into a single organ.... It would also be well to consider territorial combination of enterprises in a given economic region."[26]

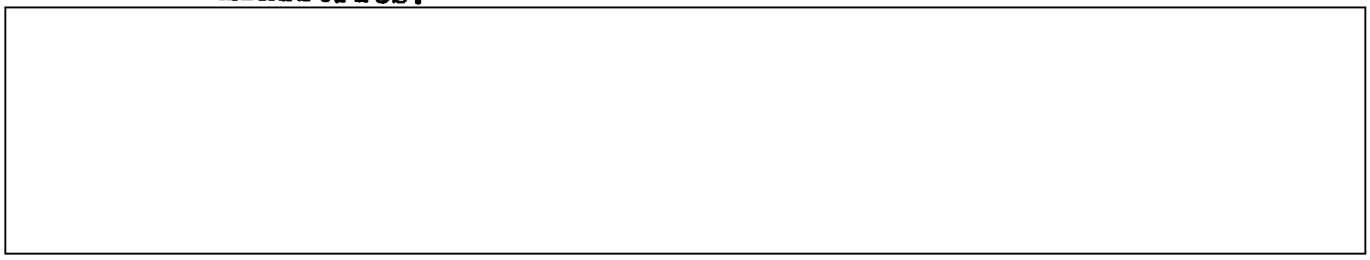
B. The December Plenum

The decision of the December plenum on improving economic management admitted that "substantial shortcomings" existed in Soviet economic planning, particularly current planning. The planning bodies were accused of inadequately studying conditions in individual industries and of "maintaining poor contact" with republics, krais, oblasts and economic enterprises. The planners permitted "serious omissions and errors" in drafting

plans, and did not "cope with their duties in checking on fulfillment." As its formula for improving central control and at the same time decentralizing authority to increase efficiency in implementing plans, the plenum issued the following orders:

> (1) The Current Planning Commission (which was reorganized under Pervukhin on the following day) was to receive more power and be given new "operative" functions to assure fulfillment of state plans and the correct distribution of material supplies. The party apparatus and the trade unions were ordered to play a larger role in improving economic management, with the party, as always, to be responsible for the "selection, promotion, and correct placement of personnel."
>
> (2) The economic powers of republics were to be extended "considerably" to "eliminate excessive centralization" and give the republics more control over fulfilling state plans. Efforts were to be made to bring agencies of the central managerial apparatus into the regions where corresponding branches of the economy were located, and the co-ordination of activity within economic regions was to be improved.
>
> (3) At the same time, however, the plenum called for a "further extension of the powers of ministries."[28]

It should be noted that the instructions of the central committee were wholly unclear in the matter of drawing a line between central authority on one hand and the power of republics and individual ministries on the other. Both were to be increased. Furthermore, these directives did not resolve the inherent conflict between further widening the power of republics and increasing the authority of individual central ministries.



The ability of the party, through planning, to concentrate resources for the purpose of attaining any desired policy objective was claimed to be the major reason for the superiority of the socialist system over the capitalist system. since the Soviet press several time early in 1957 reiterated the superiority of socialist planning over capitalism in similar words.[29]

reported that at the plenum harsh criticism arose against "departmentalism," or the bureaucratic barriers between ministries which severely hindered specialization and co-operation among individual plants. This resulted in duplication of production, cross-hauling of freight between different regions, and wastage of capital investment funds. Khrushchev himself reportedly made a sharp attack on this problem, and the central committee ordered an investigation of ways to reduce the barriers. According to the merging of related ministries was considered and rejected as a solution in the weeks following the plenum. The answer which was increasingly favored was reportedly a serious reduction in the vertical, i.e., ministerial, chain of command, and a greater emphasis on regional co-operation and specialization.

From the December plenum to the Supreme Soviet meeting in early February, discussions in the Soviet press on reorganizing planning and economic administration were generally consistent with the information presented above on the December plenum. At the beginning of January, a measure was introduced increasing the authority of republics over the distribution of meat and dairy products produced within their territories,[30] and editorials in both Pravda and Izvestia during the month commented on the need to increase the powers of republics and local soviets. Khrushchev, perhaps alluding to the industrial reorganization then being planned behind the scenes, stated in a 13 January speech in the Uzbek SSR that shortcomings in economic management should be exposed and removed "more rapidly." He emphasized the need to "act like a surgeon who takes a sharp knife and operates on a man's body to cut out malignant growths."[31]

In mid-January, F. R. Kozlov, first secretary of the Leningrad Oblast party committee who was appointed a candidate member of the party presidium in Moscow one month later, discussed at a party meeting the lack of co-operation between ministries and the need for the planning bodies to consider more fully the potentialities of economic regions in formulating plans.[32] At the end of January, an article appeared in the State Planning Commission's monthly journal calling for

improvement in republican planning bodies. This article also advocated that more authority be granted to the central government's planning bodies, both Gosplan (long-range) and Gosekonomkommissia (current planning), in order to eliminate "departmentalism."[33] At the end of January, Pervukhin, at a meeting of the party organization of the current planning body, pointed out that there was too much parallel and purposeless work in the republics, the ministries and in the current planning group, and that a reorganization of the current planning group was under way to expand its rights in resolving these problems.[34]

C. The February Supreme Soviet

Pervukhin, in his speech on the 1957 plan to the Supreme Soviet, again reiterated that his current planning organ had been given new "operative" powers to assure the fulfillment of plans, and there was no hint in the discussions at the Supreme Soviet of the later proposal in Khrushchev's theses to abolish the current planning body and transfer its functions to Gosplan. In other fields, the Supreme Soviet adopted new measures expanding the rights of republics and local soviets, and individual deputies proposed still others; the discussions revealed innumerable examples of red tape, poor planning and "departmentalism" in the present structure of industrial administration.

This was the first time an annual economic plan was considered by the Supreme Soviet, a fact probably intended to provide evidence of greater democracy. The Supreme Soviet also approved new legislation transferring to republics the power to make changes in the boundaries of krais and oblasts within their territories, perhaps in anticipation of the reorganization to be proposed later by the February plenum. Khrushchev's theses, issued at the end of March, recommended some changes in existing administrative-territorial boundaries.

On the local level, several deputies praised the law passed several years ago giving local soviets the right to spend tax revenues received above the amount earmarked for the central government and urged that the proportion of tax revenues retained locally be further increased. Deputies also requested that the authority of local soviets over housing construction be increased, and one asked that management of local building materials enterprises be concentrated in the hands of local soviets.[35]

The complaints of deputies concerning existing defects in industrial administration and planning constituted a catalogue of things which have gone wrong in the Soviet bureaucracy.. According to a speaker from the Ukrainian SSR, for example, the Soviet government in 1951 and again in 1952 decreed the reconstruction and enlargement of the Odessa water supply system, the cost to be shared by "interested ministries." This job was only half finished by early 1957 because many of the ministries did not do their parts of the work. Again, a representative from Moscow described the activities of the Ministry of Chemical Industry, which had spent seven years and over 100,000,000 rubles building a plastics factory. This plant was not yet finished, and it now appeared there was no need for it. Nearby was a similar, already functioning plant, with a "great reserve" of unused production capacity. This situation had arisen because the two plants belonged to different ministries, which obviously were not co-operating with one another fully. As a final example,a deputy from the Georgian SSR revealed that the USSR Ministry of Building Materials had issued a cement production plan for the Rustavi cement plant a year before the enterprise was even completed and ready to start production.[36]

D. The February Plenum

The decision of the February plenum was the first official attempt to organize economic management on a regional basis. As noted above, however, the regional concept had been used previously to some extent for planning purposes, and in the weeks before and following the December plenum apparently received increasing study and support. The proposed organization of management represented a victory for the regional concept over the specialized ministerial concept and was by far the most radical "efficiency measure" for the Soviet economy since Stalin's death. The confusion and temporary reduction of output which could result showed that the regime felt drastic, and risky, measures were needed in its effort to attain the very ambitious industrial goals on which progress was already lagging, and, at the same time, to meet added burdens from abroad and, in some degree, pressures from the consumer.

The resolution contained the following main provisions:

(1) Industrial management should be based on a combination of centralized government administration "and a greater role for local economic, party, and trade union bodies." The center of administration

"must be shifted to the local areas," and management should be organized "according to the main economic areas." Since the existing ministerial structure had led to increasing departmental barriers as the economy became more complex, "new forms must be elaborated...based on the territorial principle."

(2) In order to strengthen central control, the role of Gosplan (long-range planning) must be "enhanced," and Gosekonomkommissia (current planning) should be reorganized so as not to "duplicate" Gosplan's work or interfere in "administrative functions."

(3) A new organ of the Soviet government must be formed to assure more effective introduction of new technology into the economy.

(4) The reorganization will create "still greater possibilities for the really creative participation" of "party, local government, trade union, and Komsomol organizations in economic management." Work of state control bodies should be improved, both "in the center and on the spot."

(5) The party presidium and the government's Council of Ministers were instructed to prepare detailed proposals on the reorganization and to present them to the next meeting of the Supreme Soviet.

Although the kind of decentralization called for by this resolution was foreshadowed with reasonable accuracy by Soviet press statements and other evidence accumulated since the December plenum, the changes made in the central planning and control bodies were not. As noted above, all evidence through January, and at the Supreme Soviet meeting in early February, indicated that Gosekonomkommissia, the current planning body under Pervukhin, was to be strengthened and given operational responsibilities for the implementation of plans. At the February plenum, however, the current planning group was ordered not to duplicate the work of Gosplan and not to interfere in the actual administration of the economy.

The instruction of the plenum to set up a new government organ to assure the introduction of new technology into the economy also fits this pattern of reducing the current planning body's role. In May 1955, when the original State Planning Commission was split into long-range and current planning organs, a State Committee for New Technology was also set up. By the end of 1956 it was apparently felt that this committee was not adequately fulfilling its functions, since the December plenum stated that "a major task" of the current planning group was to assure the introduction into the economy of new technology. At the February plenum, the formation of a new body was ordered instead.

Immediately following the February plenum, it became increasingly clear that the proposed reorganization would basically follow the territorial boundaries of existing republics, krais and oblasts, with perhaps a few mergers of oblasts whose economies were poorly developed. Pravda and Izvestia editorials both emphasized the need to strengthen the rights of republics during this period, praising in this connection the correctness of the "Leninist nationality policy." On 18 February, another article on economic regions was published in the journal of the State Planning Commission,[37] labeled "for discussion," as was the article in December published by the same journal (see above). The new article emphasized much more strongly than the December one the need to preserve the present national lines in the USSR, and said, "It is impossible to regard as justified...the establishment of economic regions in the USSR in which several republics are included." The December article had recommended merging into larger economic regions some of the smaller republics.

E. Khrushchev's Theses

On 27 February 1957, candidate member of the presidium Y. A. Furtseva stated in a speech in Moscow on the proposed reorganization that "before this question comes up before the Supreme Soviet, the theses of the report will be published and submitted for wide discussion."[38] A month later, on 30 March, the Soviet press published for public discussion Khrushchev's "theses" on the reorganization, and several days later announced that a Supreme Soviet meeting would begin on 7 May to act on the proposals. Publication of such theses on important subjects is unusual but not unique in Soviet history, and is intended to give the appearance of democracy as well as to solicit suggestions for carrying out major changes of policy or methods of organization and administration. Similar "theses" preceded the adoption of revised statutes of the Communist Party by the 19th party congress

in 1952, and a similar "wide, public" discussion was held before the USSR constitution was approved in 1936. The drafts of five-year plans also have normally been published for discussion a month or so before formal adoption by the party.

As mentioned above, there have been reports that Saburov actually drafted Khrushchev's "theses." If this was the case, Saburov may have proposed the reorganization plan in early February as a feasible way of eliminating bureaucratic "administrative deficiencies" which he may have contended in December were the real reasons why realization of the Sixth Five-Year Plan was in jeopardy.

The theses called for the abolition of central industrial and construction ministries and the formation of new "national economic councils" which would be responsible for administering industry within geographic areas. The areas would be basically the same as existing political-territorial divisions, such as the Bashkir autonomous republic, Sverdlovsk Oblast and Chelyabinsk Oblast. The powers of the various republic governments would be increased markedly under the reorganization, and the republics, together with the subordinate "national economic councils," would have much greater responsibility than previously for the implementation of the national economic plan which had been approved by Moscow. The national economic councils (called Sovnarkhozes) would exercise operational control over individual enterprises in their areas.

The proposals also called for major changes in the central government and planning apparatus. Gosplan, since 1955 responsible only for long-range planning, would be given most of the planning and operational responsibilities of the current planning body, and the latter would be abolished. This proposal went beyond the instructions of the February plenum that the current planning group not duplicate Gosplan's work, and was the final step in cutting down Pervukhin's committee. In integrating the economic plans of the various republics, Gosplan should "nip in the bud" all attempts to use resources for local purposes "to the detriment of the interests of the state as a whole."

The theses also recommended that the USSR Council of Ministers be reorganized to include the chairman of each republic's Council of Ministers. In addition, the roles of the party apparatus and trade union organs in assuring the implementation of state plans were to be increased under the reorganization. The local party organs would benefit particularly from a regional form of management, since the existing structure, under which

individual plants often had direct lines of command to ministries in Moscow, had "deprived" local party organs "of exercising more active influence upon the work of enterprises."

Some parts of Khrushchev's theses indicated that controversy had occurred in their formulation. According to the theses, "some comrades" were proposing the formation of special committees under the USSR Council of Ministers to have responsibility over key branches of heavy industry. Earlier in March an officer of the [redacted] that a possible "first step" in the reorganization might be the formation of broader central ministries, for example, one ministry for the whole of heavy industry.[39] Whether named committees or ministries, such organs would, according to Khrushchev, "inevitably set up apparatuses" similar to those of existing ministries. The State Planning Commission, now to be responsible for both current and long-range planning, should be given any functions which such organs might perform.

These apprehensions of "some comrades" that the reorganization might weaken central control over the economy appear to concern heavy industry particularly. Khrushchev's theses discuss in some detail the need to guard against tendencies toward local autarchy and against tendencies to place local welfare above the needs of the state, and the theses claim that improved central planning and control can adequately protect the state from these pressures. Several personnel transfers, however, may have resulted from this opposition. [redacted] a rumor was current in Moscow at the end of March that I. F. Tevosyan and A. M. Puzanov, both members of the central committee, had been assigned as ambassadors to Japan and North Korea, respectively, because of opposition to the reorganization. Tevosyan, whose appointment was announced in the Soviet press on 30 December 1956, had previously held the post of deputy premier and probably had general responsibility for the metallurgical industry. As noted earlier, an equally logical reason for his transfer was the poor performance of that industry in 1956. Puzanov's appointment to North Korea was announced on 22 February 1957. He had previously held the post of first deputy premier of the RSFSR.

Another personnel reassignment which occurred at the same time, and therefore may be connected with the reorganization, is that of N. S. Ryzhov, whose release as minister of light industry and appointment as ambassador to Turkey was announced on 24 February. [redacted]

Ryzhov's Ministry of Light Industry had been split in two in 1955 as part of the trend toward more specialized ministries, and the two parts had been merged again a year later, when many consumer goods and textile plants under the two ministries were transferred to republic jurisdiction.

Another possible source of opposition to the reorganization is suggested by the sharp criticism of Molotov's Ministry of State Control in Khrushchev's theses. The resolution of the February plenum contained no such criticism, and earlier evidence had indicated an increase in the ministry's power since Molotov became its chief in November 1956.[23] The theses, however, attacked the ministry for maintaining "a cumbersome apparatus," "usurping the functions of economic organs," and trying to "embrace literally all matters." The theses call for all state control organs to bring their work into line with "Leninist" directives on control work, which probably means making their work more responsive to direction by the collective leadership. This criticism of Molotov may mean that he had failed to run the ministry efficiently, that he was trying to use the state control post as a springboard to recoup his failing political influence, or that he opposed the reorganization. Since Molotov reportedly was one of those who criticized Soviet economic defects most strongly at the December plenum,[9] he probably did not oppose the need for some form of reorganization. As an "old Bolshevik," however, he may have opposed the radical proposal of abolishing industrial ministries and going over to a regional form of management.

In addition to revealing some disagreement over the reorganization, Khrushchev's theses showed that the regime anticipated confusion in management and disgruntlement among displaced administrators when the proposals were implemented. The theses emphasized that due care should be taken to provide released employees with suitable jobs and expressed confidence that these employees would see the reorganization in its "true light." Madame Furtseva had told a party gathering in Moscow on 27 February that the party organs of ministries "must explain matters well" to employees released from ministries, and help them "correctly understand" the measures.[38]

Apparently these explanatory efforts were not too successful, at least in their initial phase, because an article published on 15 March in Party Life, a journal of the Communist Party, quoted statements of speakers at various local party meetings that the efficiency of ministries and other central authorities had already declined because of the

envisaged administrative changes. The article concluded by urging that the projected economic changes not be used as excuses for poor work.[40] In addition, a slowdown in planning work was suggested by the fact that, as of late March, the state planning commission of the Kazakh SSR had not yet been informed by Moscow of all data on the 1957 plan for those enterprises subordinate to central ministries.[41]

F. The May Supreme Soviet

During April, a great show was made throughout the USSR of public discussions concerning the proposed industrial reorganization. At the Supreme Soviet meeting in May, Khrushchev in a lengthy speech detailed a somewhat revised version of the reorganization, and was appointed chairman of a subcommittee of the Supreme Soviet which was to consider "addenda" to the official law on the reorganization. After two days of discussion, the Supreme Soviet approved the law, with several minor amendments, and ordered that the reorganization be implemented by 1 July 1957.

The reorganization approved by the Supreme Soviet in May was appreciably less drastic than that envisaged in Khrushchev's theses at the end of March. The theses in March had clearly called for the abolition of all central industrial ministries, while in May the ministries responsible for atomic energy, arms and related industries were retained. (Khrushchev himself said at the May Supreme Soviet meeting that this represented a change of view.) In March, the theses had also called for the abolition of industrial and construction ministries in individual republics, while in May Khrushchev said there were differing views on this question, and admitted that some ministries should perhaps be retained in the larger republics. The Supreme Soviet postponed a decision on this problem by turning responsibility for it over to the individual republics. In addition, in March the theses had sharply criticized the Ministry of State Control under Molotov and had called for a "drastic reorganization" of this ministry. In May, however, after one of the deputies at the Supreme Soviet had proposed concentrating all state control functions in Moscow, Khrushchev said that the solution of this issue would be postponed and the question studied "more profoundly."

The reorganization as finally approved by the Supreme Soviet, however, still constitutes the most drastic change in the structure of the government since World War II. According to published information concerning the USSR Supreme Soviet and the meetings of various republic Supreme Soviets in following weeks, 105 regional economic councils (70 in the RSFSR,

11 in the Ukraine, nine in Kazakhstan, four in Uzbekistan, and one each in the remaining republics) are to be established to manage most of the USSR's industrial enterprises. Although, as mentioned above, some ministries are retained, over 20 central industrial ministries are to be abolished. The regional councils have been given fairly wide administrative powers, but do not have policy-making functions. Central authorities have explicitly been given power to "suspend" decisions of the regional bodies.

What are the prospects for success of this reorganization in increasing Soviet industrial efficiency? After the initial confusion, some improvement of industrial efficiency will probably result. Co-operation between related industries in the same geographic area should be improved, and irrational "cross-hauling" of industrial goods should be reduced. In the long run, however, regional bureaucracies and special interests will tend to replace the present ministerial barriers, minimizing the benefits of the reorganization.

V. Political Implications

The above analysis of developments in the Soviet economy from late 1956 through May 1957 has two important political implications.

(1) Since replacing Bulganin as the regime's public spokesman in the field of industrial administration last February, Khrushchev has been the dominant Soviet leader in the economic field. From start to finish he has publicly assumed leadership over the industrial reorganization. In many speeches to agricultural workers throughout the spring, he has continued to act as the principal formulator of Soviet farm policy. (Actually, Khrushchev has become increasingly pre-eminent in the Soviet leadership in all areas of foreign and domestic policy this spring, and has received more publicity than any leader since Stalin's death. All evidence shows quite conclusively that Khrushchev has more than regained whatever influence and prestige he may have lost during the Satellite crises last October and November.)

During this same period, however, Khrushchev seems to have modified or compromised his own previous position on economic problems on several occasions. The industrial reorganization turned out to be less drastic than he had originally proposed. His statements on the primacy of heavy industry in the 30 March theses of the reorganization also suggested a less dogmatic view than he had formerly propounded on this subject. Though not discussed in this analysis, the retrenchment in the spring of 1957 of the grandiose corn program advocated by Khrushchev since 1955 represents another change in his previous views.

On each of these occasions, Khrushchev himself announced the change in plans or policy, and there was a complete absence of public criticism in the USSR over the changes. It cannot be determined whether Khrushchev was forced by the collective leadership to modify aspects of his programs which came to be regarded as unrealistic or unacceptable, or whether he personally became convinced that such changes were necessary. In either case, Khrushchev publicly suffered not at all, and his personal announcement of changes has contributed to his prestige.

(2) This analysis suggests that the economic bureaucracy, or so-called managerial class, is exerting increasing influence over Soviet economic--and thus political--policy. The low goals of the 1957 plan, which represent the interests of this group, were approved as the law of the land at the

February meeting of the Supreme Soviet. Despite later evidence suggesting that the regime hopes to avoid reductions of similar magnitude in the goals of the five-year plan, and despite criticism by Khrushchev of at least part of the 1957 plan, the low goals of the 1957 plan have not been repudiated.

It seems unlikely that there is a cohesive group in the USSR, or one with any form of unified political aims, which could be labeled as the economic bureaucracy or the managerial class. The concept of an economic bureaucracy or managerial class is itself an abstraction. Although patterns of thought from which valid generalizations can be inferred exist in such a group, the views of specific individuals in the group undoubtedly range the gamut between conservatism and optimism. There are in addition subcategories within such a group, such as economic planners or practical business administrators. Those who have gained most of their experience in the planning field, despite individual differences, probably tend toward the view that ambitious plans are necessary for maximum economic growth. Those in the field of practical administration, on the other hand, may tend to emphasize more strongly the improvement of economic efficiency as a desirable objective, and feel that increased efficiency can best be achieved with realistic, rather than overambitious plans.

It is the practical administrators who seem to have played a role of increased importance in early 1957. Pressures from this group, however, are largely unorganized, probably at the present influence state policy only through the economic field, and probably appear mainly in the form of individual ministers and officials pressing for special rights and interests. It may be incorrect to regard any of the present party leaders as "representatives" of this group before the presidium, but a party leader, such as Pervukhin, who has himself risen from this group, may tend to espouse or at least sympathize with the views of this group. In any event, since the road to personal gain and influence in the USSR is through the party, any further increase in the power of this group, and any efforts to give it cohesiveness, will occur within party channels, and could result in increased factionalism within the party.

SOURCES